



Financial Reporting Advisory Board Paper

Report for the European Commission – Towards implementing harmonised public sector accounting standards in Member States – The suitability of IPSAS for Member States

Issue:	The European Commission has published a report assessing the suitability of using International Public Sector Accounting Standards (IPSAS) as the basis for a set of harmonised public sector accounting standards for all Member States.
Impact on guidance:	None at present.
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts	N/A
Impact on Estimates?	N/A
Recommendation:	For the Board to note that the Commission has produced a report recommending the introduction of EPSAS and to provide initial views on the proposals.
Timing:	N/A

DETAIL

Background

1. In response to the sovereign debt crisis, there has been widespread recognition of the need for governments to clearly demonstrate their financial stability and for more rigorous and transparent reporting of fiscal data. Council Directive 2011/85/EU (the Budgetary Frameworks Directive) recognises the importance of complete and reliable fiscal data that is comparable across EU Member States. It sets out the rules on Member State budgetary frameworks that are necessary to ensure compliance with the obligation under Article 126 of the Treaty on the Functioning of the European Union (TFEU) to avoid excessive government deficits.
2. Article 3 of Directive 2011/85/EU requires Member States to 'have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard'. However, the continued use of cash accounting by many public sector entities in Member States means that there is a widespread lack of coherence between primary public sector accounts and ESA 95 accruals data.
3. Reliable government financial accounts are seen as essential for the preparation of national accounts. To that end Eurostat is looking to promote a system of harmonised public sector accruals-based accounting standards across the EU covering all entities in the government sector. Under Article 16(3) of Council Directive 2011/85/EU, the Commission was obliged to assess the suitability of International Public Sector Accounting Standards (IPSAS) for Member States. The report from the Commission to the Council and the European Parliament on the suitability of IPSAS for the Member States was released on 6 March 2013.¹
4. This paper provides the Board with an overview of the Commission's findings and its recommendations for a way forward that would enable the implementation of harmonised public sector accounting standards in Member States.

Report findings

5. An initial study by Ernst and Young on behalf of Eurostat into public accounting and auditing in the 27 Member States found that the majority of Member States had already implemented, or were in the process of implementing, some form of accrual accounting across at least part of the government sector.² There was no harmonised approach, however, with many Member States utilising multiple accounting standard frameworks based on national standards at different levels of government.
6. Harmonised standards are seen as necessary to provide a firmer basis for understanding the economic position and performance of government entities at the micro-level, which

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http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/1_EN_ACT_part1_v5.pdf.

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http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

will in turn facilitate the production of high quality debt and deficit data at the macro level. In order to facilitate harmonisation, IPSAS has been viewed as a potential suite of standards that could be utilised by Member States as they are seen as the only internationally recognised set of public sector accounting standards. In order to assess the suitability of IPSAS in accordance with the Directive, the Commission undertook a public consultation³ and has also held further consultations with Commission services, international organisations, experts within Member States, and the IPSASB.

7. The report from the Commission on the suitability of IPSAS has a two fold conclusion. The first part of the conclusion is that IPSAS cannot easily be implemented in EU Member States as it currently stands. The concerns with IPSAS that the Commission indicated need to be addressed are as follows:
 - The Commission's view is that the IPSAS standards are not sufficiently prescriptive on the accounting practices that need to be followed as some allow for the possibility of choosing between alternative accounting treatments. It is deemed by the Commission that this would limit harmonisation in practice;
 - The Commission is also of the opinion that at its current state of development the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows (such as taxes and social benefits) and does not take sufficient account of the specific needs, characteristics and interests of public sector reporting. In particular the Commission raised as a major issue the capacity of IPSAS to resolve the problem of consolidating accounts on the basis of the definition used for general government, which is now a core concept of fiscal monitoring in the EU;
 - The Commission further indicated that IPSAS can be regarded as insufficiently stable, since it is expected that some standards will need to be updated once work is finalised on the IPSAS conceptual framework (expected in 2014); and
 - Finally, the Commission also noted that at present the governance of IPSAS suffers from insufficient participation from EU public sector accounting authorities. The Commission further noted that the IPSAS Board currently seems to have insufficient resources to ensure that it can meet the demand for new standards and guidance on emerging issues in the evolving fiscal climate with the necessary speed and flexibility, particularly in the wake of the sovereign debt crisis.
8. The second part of the conclusion , however, is that IPSAS represent a suitable reference framework for the future development of a set of European Public Sector Accounting Standards (EPSAS).

Moving towards EPSAS

9. According to the Commission the benefit of EPSAS is that it would provide the EU with the capacity to develop its own standards with the requisite rapidity, with those standards being adapted to the the specific requirements of EU Member States. A decision as to whether to move to EPSAS has not yet been taken, and the Commission has indicated

³ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/D4_2012/EN/D4_2012-EN.PDF

that a number of further preparatory steps are necessary that are outside of the scope of its initial report. These include how the EPSAS framework would be established, what the first set of core EPSAS standards would be, and how their implementation in Member States would be planned.

10. A proposed three stage process for the introduction of EPSAS has, however, been put forward by the Commission. This would require:
 - (i) A preparatory stage beginning in 2013 to gather more information and points of view leading to the development of a road map;
 - (ii) A stage to develop and put in place practical arrangements leading to the publication of a Framework Regulation. This Framework regulation would require the application of the accruals principle and set out plans to develop further specific accounting standards over time; and
 - (iii) An implementation stage, allowing for the gradual implementation of EPSAS by all Member States in the medium term.
11. The Commission has indicated that it wishes to make swift progress on these issues, and a high level conference will take place in Brussels at the end of May.

Recommendation

12. Although the proposals are at an early stage, any future requirement for all EU Member States to apply EPSAS would naturally have significant implications for UK public sector financial reporting. As such HM Treasury will engage fully with the Commission on the development of its policy.
13. At this early stage HM Treasury asks the Board to note that the Commission has produced a report recommending the introduction of EPSAS and asks for the initial views of Board members on the proposals.

HM Treasury

4 April 2013